

Report of the auditor-general to the Free State Legislature and the council on the Moqhaka Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Moqhaka Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Moqhaka Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

9. As disclosed in note 55 to the financial statements, material electricity and water losses of R55 838 036 (2015: R39 138 180) and R15 137 855 (2015: R16 488 431), respectively, were incurred as a result of line losses, tampering and theft.

Material impairments

10. As disclosed in note 4 to the financial statements, receivables from exchange transactions were impaired by R287 000 299 (2015: R226 134 991) and, as disclosed in note 6 to the financial statements, receivables from non-exchange transactions were impaired by R15 543 376 (2015: R12 999 828).

Irregular expenditure

11. As disclosed in note 56 to the financial statements, the municipality incurred irregular expenditure of R29 713 693 (2015: R35 673 826) in 2015-16 due to non-compliance with supply chain management (SCM) requirements.

Unauthorised expenditure

12. As disclosed in note 58 to the financial statements, the municipality incurred unauthorised expenditure of R190 575 160 (2015: R133 829 889) during 2015-16 due to expenditure exceeding the limits provided for in the main divisions of the approved budget.

Going concern

13. Note 53 to the financial statements indicates that the municipality incurred a net loss of R83 901 995 during the year ended 30 June 2016 and, as of that date, the municipality's

current liabilities exceeded its current assets by R76 680 598. In addition, the municipality owed Eskom R63 080 478 at 30 June 2016 of which R33 123 946 was long overdue. These conditions, along with other matters as set forth in note 53, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary information

16. The appropriation statement set out on page xx does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion there-on.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected key performance areas (KPAs) presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected KPAs presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Key performance area: Basic service delivery on pages XX to XX
19. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned KPAs. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following KPA:

- Basic service delivery

Compliance with legislation

22. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure management

23. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
24. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
25. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
26. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Revenue management

27. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

28. Not all investments were made in accordance with the requirements of paragraph 5 of the cash and investment policy, as required by municipal investment regulation 3(3).
29. Capital assets were written off without the approval of the council, contrary to section 14(2)(a) of the MFMA.

Procurement and contract management

30. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management regulation 17(a) and (c).

Financial statements and annual reports

31. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

32. The oversight report adopted by the council on the 2014-15 annual report was not made public, as required by section 129(3) of the MFMA.
33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

Consequence management

34. Unauthorised expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
35. Irregular expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

37. Management did not effectively exercise their oversight responsibility to address all the risks in the internal controls of the municipality. Timely and adequate action was not taken and resulted in non-compliance with legislation and gave rise to unauthorised, irregular as well as fruitless and wasteful expenditure.

Financial and performance management

38. Due to a lack of capacity and proper monitoring, material misstatements to the financial statements submitted for auditing had to be made.
39. Processes to monitor compliance with legislation were not effective and management did not implement consequence management where laws and regulations have not been complied with.

Auditor-General

Bloemfontein

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence